



## Presentation on Premium Income Generator

# Why Premium Income Generator ?

- ❑ Generates Income from already Income/Wealth creating assets like Equities/Mutual Funds.
- ❑ No additional capital required.
- ❑ Low cost of generating income.
- ❑ Contracts are for shorter period like month and hence Monthly Income Flow.
- ❑ Just like property gives capital appreciation as well as rental income, existing investment in equities/mutual funds can give additional income.
- ❑ It's a low beta product and hence relatively low risk.

# How do we generate this Income ?

- ▶ We pledge the existing Investments to trade in Options.
- ▶ We sell OTM (Out of the money) Options. Options whose strike price is far away from the actual price.
- ▶ We gain money from the decay in options value due to time.
- ▶ We **usually** hedge our Options with buying a higher strike price Option.
- ▶ We Identify stocks for which the option is to be sold based on number of parameters like
  - Recent Price Movement.
  - The technical Parameters
  - The Option value as defined by IV (Intrinsic Volatility)
  - Any news/results/or any events in the stock.

# What are Options?

- ▶ Options is right to buy/sell a particular stock at a future date.
- ▶ Options do not have any real value since they just represent a right which can be exercised. Rights will have value only if they are in favour.
- ▶ Options are like Insurance Premiums. You pay and you have a right to claim hospitalisation expenses. But if you don't get sick the premium goes waste.
- ▶ Options open and *expire* every month. Theoretically option contracts are available for 3 months but in practicality only current month options are liquid.
- ▶ Options expire at the last Thursday of the month and hence usually have a life of 20-22 days considering the holidays.
- ▶ In India every month 90,000 to 95,000 crore of options open and expire every month.
- ▶ Historically 95 % of the people globally and in India make money by selling options.
- ▶ Options is a game of probability and the values depreciate faster when the probability becomes dimmer.
- ▶ Option values are based on the prices of the underlying stock prices. In a normal environment option values move 0.30paise to every 1Rs movement in stock prices for the first 15 days and then 0.20 for the last 7 days and 0.10 for the last few days and eventually 0.
- ▶ We capitalise on the depreciation in the Option values which is known as the Theta.

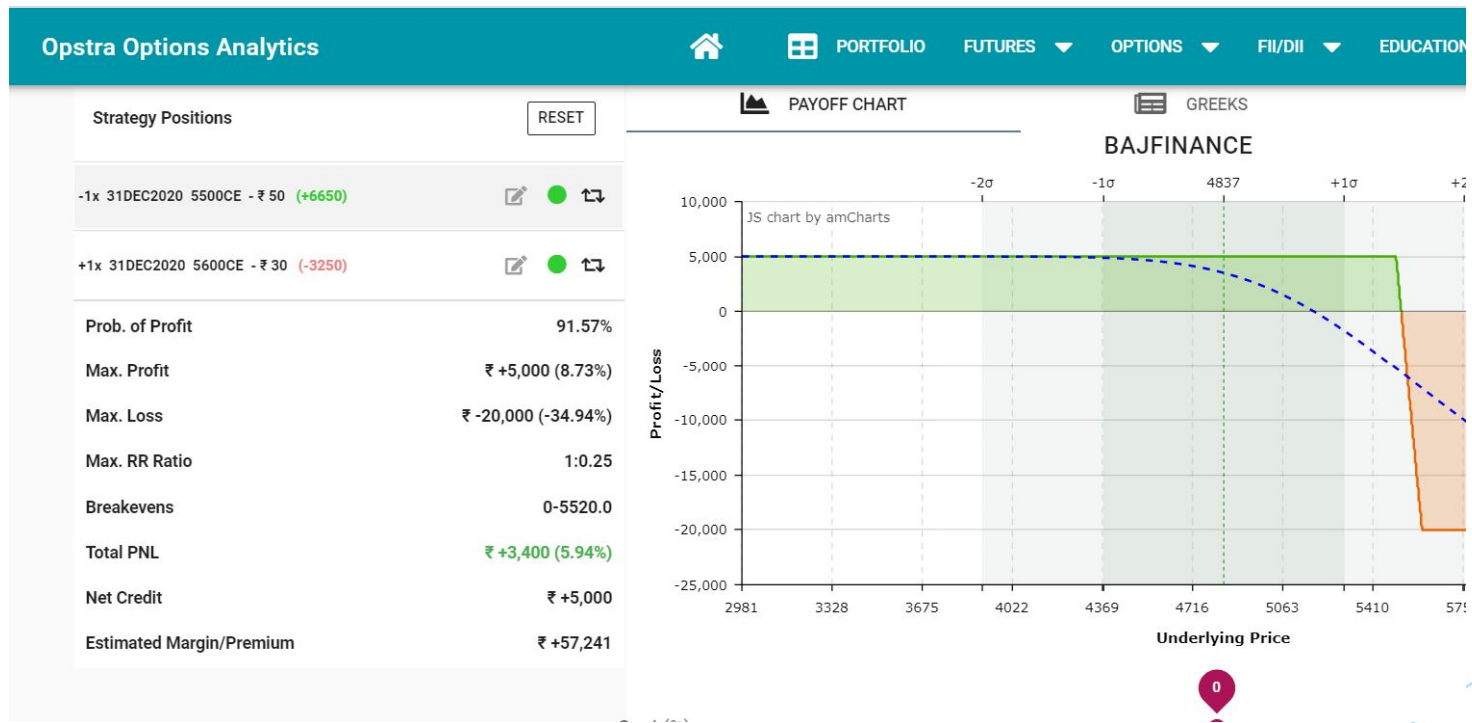
# Who are this Option Sellers and Buyers and how is price determined?

- ▶ Options derive their values from their underlying. They are a combination of the price of the underlying, the intrinsic value, the time to expiration, the Interest rate in the economy, volatility (VIX) and the dividend (if any) in the stock.
- ▶ The value is derived using the black-Scholes model which derive the IVS of the particular stock.
- ▶ If the Historical Ivs (Hvs) are less then current Ivs (Ivs) then there buyers in the options.
- ▶ Options are used by arbitrageurs to hedge their positions.
- ▶ Options are bought and sold by people who hedge their positions with basic underlying.
- ▶ Options are traded by Fiis and the DIIs to hedge their positions.
- ▶ Options are also traded by people who are privy to insider news or are expecting some event in the stock.

## What's the Strategy?

- We sell options which give 2.5 - 3 % returns on the margin required. Eg:- if the margin required is say 1,00,000/- we look for a return of Rs 2,500 to 3,000.
- We usually cover the options once the option values depreciate to Rs 900 or less within first 15 days of expiry and use the margin to look for another opportunity.
- We adopt A B C approach in different clients depending on their risk appetite.  
i.e A (aggressive ) B (Basic) & C (conservative).
- We trade only in Nifty 50 or top 100 FNO stocks. We avoid midcap and high beta stocks where movements are more than 10 15 % in a day.
- We create a equal portfolio of stocks say 30 % each into three categories.
- ✓ 30 % in stocks which are already up by more then 10-15 % in the previous month or start of the month
- ✓ 30 % in stocks which are slow moving and huge capital stocks
- ✓ 30 % in Stocks which have negative news or events and no likely to move up much.

# Sample Strategies



# Returns?

- The average returns of this strategy has been 18-24 % p.a depending on the market volatility and the opportunities available.
- Returns are much higher and consistent in case of volatile markets.
- Returns are lower in case of up trending markets cause of low premium values and our strategy of selling calls rather then puts.
- Average monthly returns vary from 0.50 % to 4 % in each month depending on the markets movements during the month.
- The maximum loss we have faced is 4 % in the month of September 2019 and 2 % in November 2020.
- The returns calculated are net of expenses and fees payable.
- The returns are taxable as business income since the trades are done in options.



## How do we manage risk?

- ▶ No Risk, No Return. But the strategy has a low probability of a loss say 5 %.
- ▶ We sell options with a SL well defined which is either 2 or 2.5 times the sell value. Eg :- if we sell a call at say 3 Rs we have a SL of 6 or 7.5 depending on the day of the month that we are.
- ▶ We usually trade in 10-12 stocks and hence we divide the risk of the SL being hit in all stocks.
- ▶ In case of a trending market like the current one we hedge the positions and limit the loss.
- ▶ We usually sell calls and not puts as we believe the probability of hitting a lower circuit is more probable than a upper circuit.
- ▶ We don't trade when there are major events in the economy like election results, global events or events in the stock like results or announcements.

## Results?

- ▶ We send Profit % statements to the client at the end of the month.
- ▶ We make pay-out of the profits to the clients at the end of the month.
- ▶ We carry over the loss ( if any ) to the next month.
- ▶ We insist on 80-90 % in stocks and 10-20 % in cash to tide over unexpected loss.
- ▶ There is no risk of stocks/mutual funds being sold in case of loss if the loss is paid.
- ▶ The stocks/mutual funds can be sold or redeemed within the same month.
- ▶ We share the trade reports in excel or any format required for ITR filing

We stand too far to be

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Any Questions?



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Thank you

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Investments is telling your money where to go, rather than wondering where it went.